

ZhongAn Online (6060 HK)

Towards a profit-oriented and lean model

Stock price of Zhong An has performed rigorously since the coronavirus outbreak, in light of deeper online insurance penetration. Speaking of firm fundamentals, however, we think the upward trend is steady but may not be linear. Challenges still lie ahead with respect to underwriting margin and tech business monetization. In the near term, 2H19 is likely to incur net loss again.

- Underwriting business to prioritize quality growth.** GWP growth in 2019 is likely to be driven by health and lifestyle consumption (+150% YoY via platforms of Ant Financial Group). The Company is getting more selective in its underwriting business, by 1) trimming group health insurance business, which carried much higher loss ratio; 2) pausing certain travel insurance products which paid high services fees to platforms; and 3) cutting underwriting to consumer finance platforms and being alert to industry risks. Product optimization helped improving combined ratio, which is guided at 110-115% for 2019 (vs. 120.9% in 2018).
- Expect loss in 2H19 and FY19.** Although the Company achieved positive profit in 1H19, we expect net loss to incur in 2H19 due to 1) enlarged underwriting loss in 2H19. We forecast combined ratio to rise to 114% in 2019 vs. 108.3% in 1H19; 2) greater technology expenses in 2H19 (we estimate RMB 600mn loss of tech business in 2019). Investment gains likely outperform.
- COVID-19 impact mixed.** On one hand, premium income from lifestyle consumption, travel, automobile was muted due to coronavirus and may not necessarily recover in full amount after the disease is under control. On the other hand, COVID-19 invoked people's insurance awareness and promoted online insurance penetration. Premium income from the health ecosystem is likely to continue high growth momentum in 2020.
- Risks.** 1) Underwriting margin pressure; 2) investment income growth may decelerate on high base and market uncertainties; 3) weaker-than-expected technology business monetization progress.
- Valuation.** We revise up major estimates of financial metrics to reflect improvement in underwriting margin and investment income. While we acknowledge the Company's efforts towards a more profit-oriented and lean business model, we remain cautious regarding 2020 outlook. We raise TP to HK\$ 34.21, based on 3.0x FY20E P/B. Maintain HOLD.

Earnings Summary

(YE Dec 31)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	5,954	11,256	14,634	17,415	20,373
YoY change (%)	74.7	89.0	30.0	19.0	17.0
Net profit (RMB mn)	-996	-1,797	-546	-302	-26
EPS (RMB)	-0.77	-1.19	-0.37	-0.21	-0.02
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	N/A	-0.34	0.17	0.53
P/B (x)	2.36	2.81	2.92	2.97	2.96
ROE (%)	-8.3	-10.7	-3.6	-2.0	-0.2
ROA (%)	-6.5	-7.3	-2.0	-1.0	-0.1
Combined ratio (%)	133.2	120.9	114.0	108.5	104.4

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$34.21
(Previous TP)	HK\$28.18)
Up/Downside	-2.5%
Current Price	HK\$35.10

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	51,590
Avg 3 mths t/o (HK\$ mn)	155.65
52w High/Low (HK\$)	36.30/ 16.56
Total Issued Shares (mn)	1,470

Source: Bloomberg

Shareholding Structure

Ant Financial	13.54%
Tencent Computer System	10.21%
Ping An Insurance	10.21%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	31.5%	31.6%
3-mth	18.4%	19.1%
6-mth	82.7%	78.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Concerns still outweigh positive catalysts" – 27 Mar 2019
- "Open Day Takeaways – Technology serves the new generation" – 14 Sep 2018
- "Underwriting pressure outweigh tech business opportunities" – 28 Aug 2018

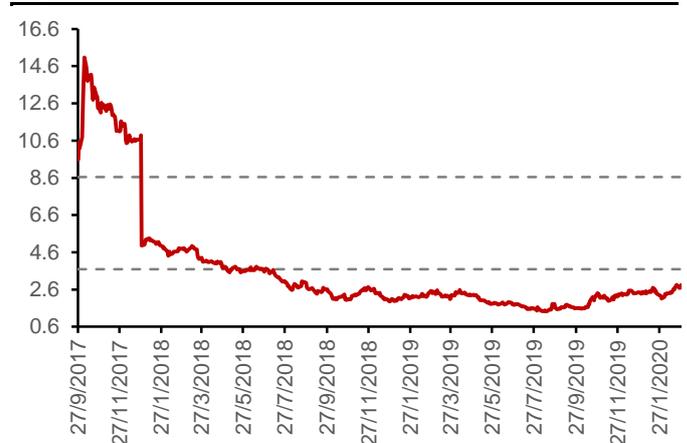
Figure 1: Revisions of major estimates

YE 31 Dec, RMB mn	2018A	New estimates			Diff. new vs. old		
		2019E	2020E	2021E	2019E	2020E	2021E
P&L							
Gross written premiums	11,256	14,634	17,415	20,373	10.1%	15.0%	18.5%
Net premiums earned	8,800	13,311	14,766	17,336	20.6%	13.4%	18.2%
Investment income	621	2,075	1,707	1,462	77.4%	23.4%	-7.9%
Insurance claims	(5,268)	(8,773)	(9,392)	(10,845)	22.6%	17.6%	20.1%
Handling fees, commissions	(1,075)	(1,317)	(1,551)	(1,748)	-2.3%	-0.7%	3.6%
G&A and others	(5,084)	(6,114)	(6,243)	(6,838)	-3.1%	-19.1%	-25.5%
Net profit	(1,744)	(546)	(302)	(26)	N/A	N/A	N/A
B/S							
Total assets	26,341	29,174	33,251	37,877	13.4%	30.1%	50.5%
Total liabilities	9,866	13,316	17,658	22,258	11.7%	20.9%	25.6%
Shareholders' funds	15,432	14,989	14,738	14,762	15.9%	43.8%	111.8%
Key metrics							
Loss ratio	59.9%	65.9%	63.6%	62.6%	1 ppt	2.2 ppt	4.6 ppt
Expense ratio	61.0%	48.0%	44.9%	41.8%	-14 ppt	-17.7 ppt	-20.2 ppt
Combined ratio	120.9%	114.0%	108.5%	104.4%	-13 ppt	-15.5 ppt	-15.6 ppt

Source: Company data, CMBIS estimates

Figure 2: Monthly premium growth

Source: Company data, CMBIS

Figure 3: P/B

Source: Company data, CMBIS estimates

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